

Electric Choice Question 1: *Since the passage of PA 141 of 2000 and PA 286 of 2008, what has been the experience with retail electric choice in Michigan in terms of participation (number and load of choice customers, customers in the queue, and number of competitive providers by customer class) and customer savings?*

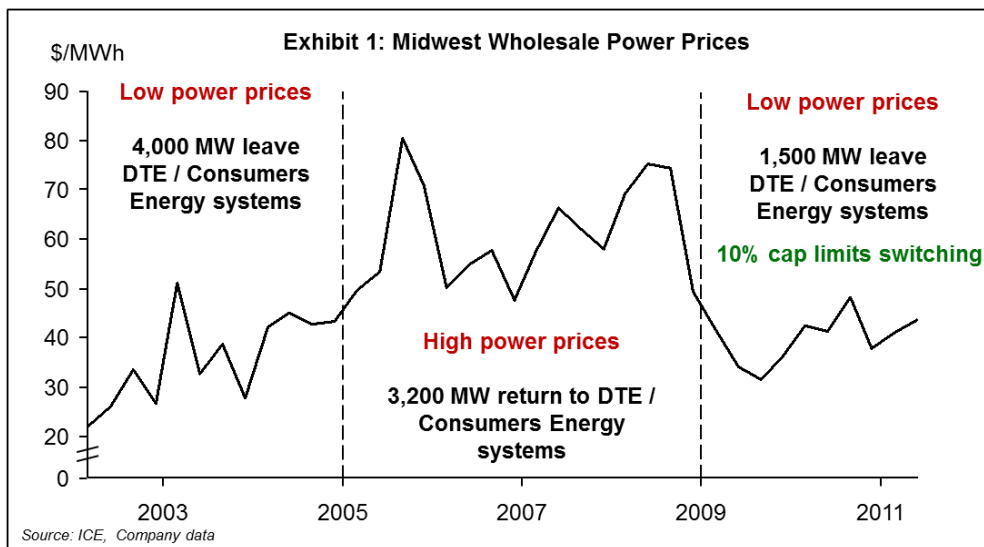
Executive Summary

1. Since the passage of PA 141 in 2000, participation and/or the desire to participate in deregulated generation markets (retail access / “Choice”) has closely tracked wholesale power prices. Wholesale power prices are affected by commodity cycles and have been very volatile. As a result, customers participating in the deregulated generation market have been switching “back and forth” between Alternative Electric Suppliers (AESs) under retail access and regulated utilities, which creates significant challenges for regulated utilities and their customers
 2. Throughout the history of deregulation in Michigan, beginning with the experimental programs for both Consumers Energy and DTE Electric in the late 1990s, Alternative Electric Suppliers have "cherry picked" the markets and served only the large commercial and industrial customers with favorable load factors and more attractive credit profiles
 - Participation by residential customers is virtually non-existent
 - Participation on a customer basis is currently at less than 0.3% of all customers for DTE and less than 0.1% for Consumers Energy. Customer participation for DTE peaked at 0.7% in 2005 and at 0.09% for Consumers Energy in 2004
 - Participation on a load basis is currently at 11% for DTE and 10.5% for Consumers Energy. Participation on a load basis peaked at approximately 20% for both utilities in 2004
 - Approximately 0.3% of customers and in excess of 10% of load for both Consumers Energy and DTE are waiting “in queue” to participate in deregulated generation markets
 3. The number of AESs participating in deregulated generation markets has also varied significantly over time, generally following the wholesale power market movements and customer participation. The number of licensed AESs peaked at 28 in 2004 and the number of active AESs peaked at 19 in 2003
 4. The savings experienced by the few customers (less than 0.3%) who participate in deregulated generation markets are difficult to quantify without full knowledge of executed contracts between the AESs and their customers. However, any savings experienced by customers participating in deregulated generation markets are unfair cost burdens for the customers remaining with the regulated utility. Any increase in the cap would only exacerbate the unfairness and further increase the cost burden for the remaining full-service customers
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1. Since the passage of PA 141 in 2000, participation and/or the desire to participate in deregulated generation markets has closely tracked wholesale power prices.

Wholesale power prices are affected by commodity cycles because these prices are driven by the fuel cost of the highest-cost ("marginal") generation unit providing power in the market. Historically, volatile gas prices have driven volatile wholesale power prices since natural gas plants have been the marginal unit in most markets. As a result of this price volatility, customers participating in the deregulated generation market have been switching "back and forth" between Alternative Electric Suppliers (AESs) under retail access and regulated utilities (see Exhibit 1), which creates significant challenges for regulated utilities and their customers.



4,000 MW is equivalent to ~6 large power plants with 30 year lives – this switching creates uncertainty for long-term planning and investment



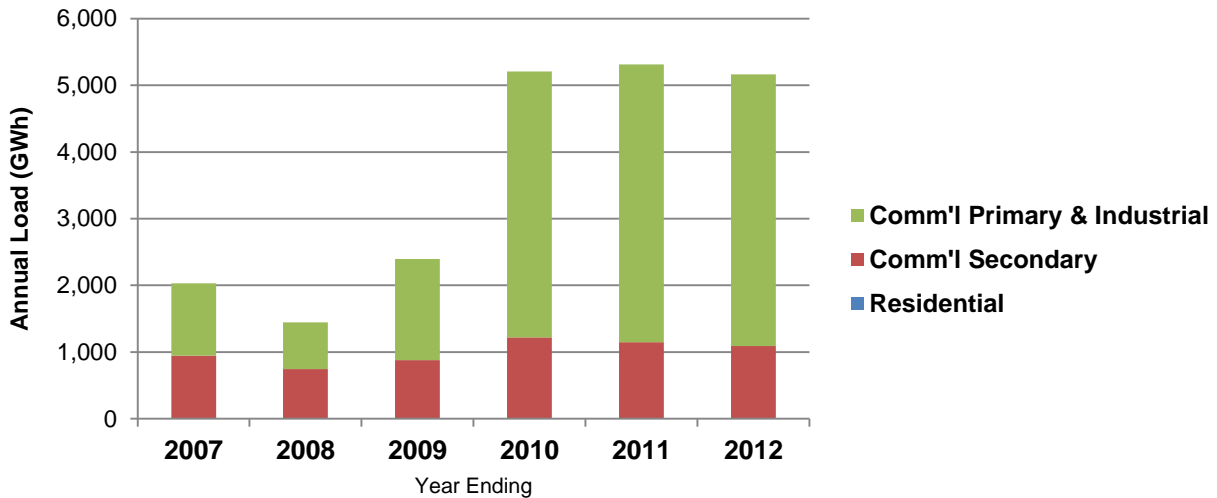
2. Alternative Electric Suppliers have "cherry picked" the markets and served only the large commercial and industrial customers with favorable load factors and more attractive credit profiles.

Throughout the history of deregulation in Michigan, beginning with the experimental programs for both Consumers Energy and DTE Electric in the late 1990s, Alternative Electric Suppliers have "cherry picked" the markets and served only the large commercial and industrial customers with favorable load factors and more attractive credit profiles.

Participation by residential customers is virtually non-existent. As shown in Exhibits 2 and 3 below, business customers are the sole participants in the deregulated generation market, with three to four times more primary (high voltage) business customer load than secondary (lower voltage) business customer load.

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Exhibit 2: DTE Electric - Participation in deregulated generation market by Customer Class



Source: DTE Energy

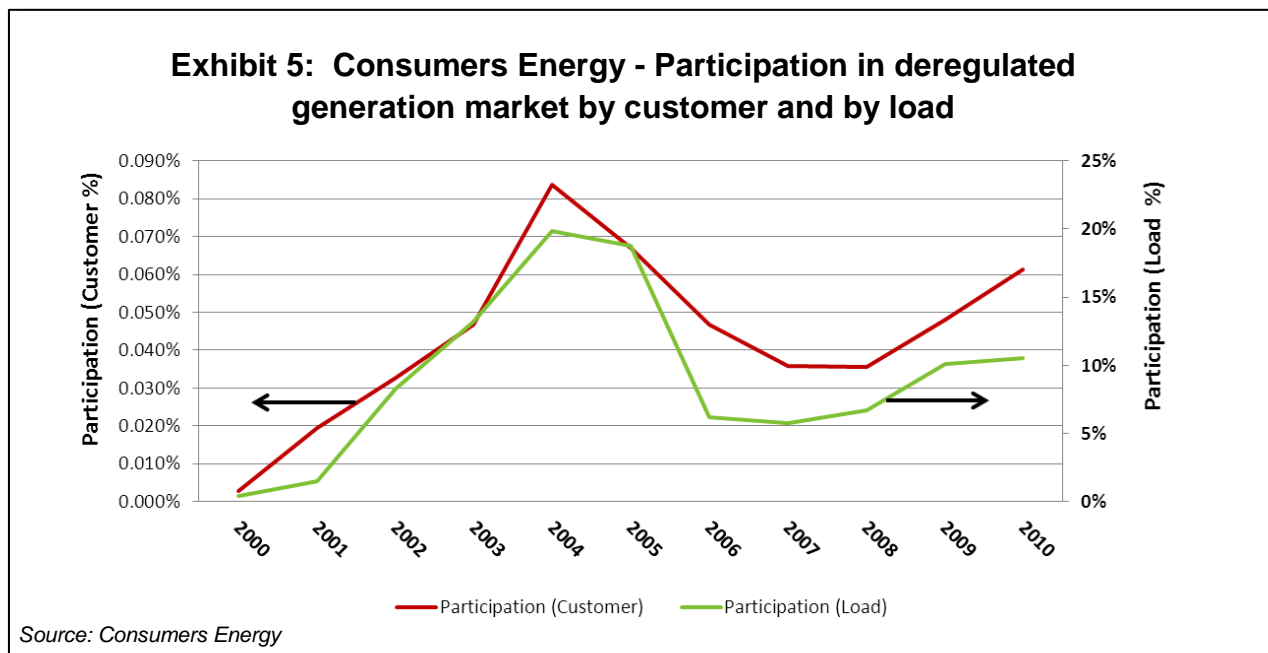
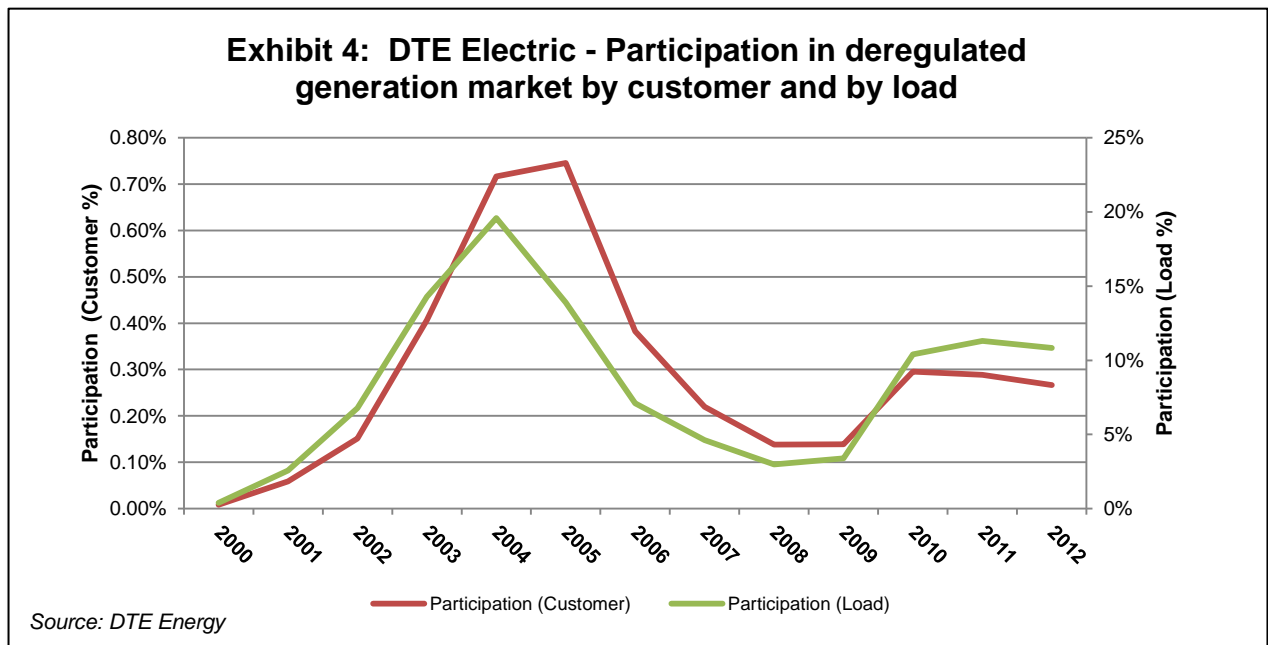
Exhibit 3: Consumers Energy - Participation in deregulated generation market by Customer Class



Source: Consumers Energy

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The nearly 11% load participation in the deregulated generation market today translates into only 0.3% of total customers for DTE and 0.06% for Consumers Energy. Exhibits 4 and 5 below show customer participation in deregulated generation markets peaked for DTE in 2005 with 0.7% of total customers and peaked for Consumers Energy in 2004 with 0.09% of total customers. The current rate structure essentially transfers fixed costs no longer recoverable from customers participating in deregulated generation markets to all remaining customers, creating an unfair subsidy from more than 99% of customers to less than 1% of customers.



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Approximately 0.3% of customers and in excess of 10% of load for both Consumers Energy and DTE are waiting “in queue” to participate in deregulated generation markets.

By December 2009, the 10% caps for both DTE and Consumers Energy had been reached. The participation levels for both I&M and UPPCo (other Michigan utilities) are below the 10% caps with participation at 6% and 2% respectively. Like current participants, more than 80% of the load waiting in the “queue” is in the commercial primary and industrial customer class.

Exhibit 6: Total participation (cap and queue) in deregulated generation markets at year-end 2012

Consumers Energy			
	2010	2011	2012
Weather-Adjusted Retail Sales	35,832,320 MWh	36,690,837 MWh	37,398,498 MWh
Participation Level	3,782,696 MWh	3,978,005 MWh	3,913,906 MWh
Participation Percent	10.56%	10.84%	10.47%
Customers in Queue	1,714	3,739	5,867
Total Load in Queue	1,226,061 MWh	3,074,504 MWh	5,048,847 MWh
Participation Percent w/o Cap	13.98%	19.22%	23.97%

DTE Electric			
	2010	2011	2012
Weather-Adjusted Retail Sales	45,430,633 MWh	46,721,674 MWh	47,093,408 MWh
Participation Level	4,577,958 MWh	5,200,608 MWh	5,316,260 MWh
Participation Percent	10.08%	11.13%	11.29%
Customers in Queue	1,100	2,646	4,600
Total Load in Queue	589,595 MWh	1,793,505 MWh	4,382,423 MWh
Participation Percent w/o Cap	11.37%	14.97%	20.59%

Source: Michigan Public Service Commission, Status of Electric Competition in Michigan; Report for Calendar Year 2012

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3. The number of AESs participating in deregulated generation markets has also varied significantly over time, generally following the wholesale power market movements and customer participation.

The number of licensed AESs peaked at 28 in 2004, and the number of active AESs peaked at 19 in 2003. The historical AES participation is reflected in Exhibit 7 below. As can be seen, a number of AESs simply exited the Michigan programs during the middle of the decade when the wholesale market prices were high and, as a result, effectively dumped their customers back with regulated utilities as the provider of last resort. This historical observation reflects the inherent instability of the deregulated market as AESs lack any long-term commitment to serving their customers.

Exhibit 7: Number of Alternative Electric Suppliers in Michigan (2000 – 2012)

Year	Newly licensed during the year	Relinquished license during the year	Total licensed at year-end	Actively serving customers during the year	Active in DTE territory* at year-end	Active in Consumers Energy territory* at year-end
2000	10	0	10	3	3	1
2001	2	0	12	4	4	2
2002	13	0	25	12	12	4
2003	1	0	26	19	18	8
2004	2	0	28	18	17	7
2005	4	5	27	18	18	9
2006	2	2	27	14	13	8
2007	3	2	28	10	10	5
2008	2	4	26	10	9	6
2009	1	3	24	11	10	6
2010	2	3	23	11	10	6
2011	1	1	23	11	10	7
2012	3	0	26	12	10	7

* Some AESs are active in both DTE and Consumers Energy territories

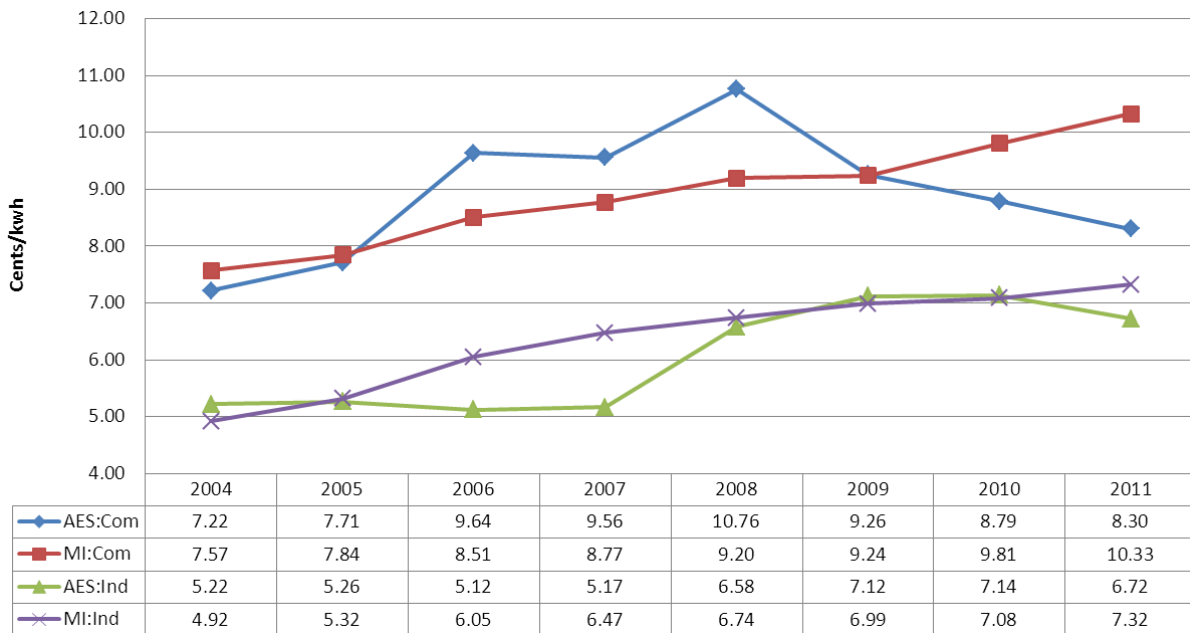
Source: Michigan Public Service Commission reports on the Status of Electric Competition in Michigan

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4. Any savings experienced by customers participating in deregulated generation markets are unfair cost burdens for the customers remaining with the regulated utility.

The savings experienced by the few customers (less than 0.3%) who participate in deregulated generation markets are difficult to quantify without full knowledge of executed contracts between the AESs and their customers. Exhibit 8 below reflects average AES and Michigan rates by Commercial and Industrial sectors from 2004 through 2011. Any savings experienced by customers participating in deregulated generation markets result in unfair cost burdens for the customers remaining on full-service rates. Any increase in the cap would only exacerbate the unfairness and further increase the cost burden for the remaining regulated utility customers. Currently, more than 99% of Michigan customers pay ~\$300 per year in fixed costs to subsidize the less than 1% of customers on retail access. This cost burden would increase to ~\$1.1 billion under a 35% retail access cap. (See Electric Choice Question 26 for detail)

Exhibit 8: Average Price: AES vs. MI



Source: EIA: Electric Annual Report; Release date: 1/30/13; State Historical Tables for 2011; Average Price by State by Provider